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otherwise consistent with the purposes and policies of the Act.

[44 FR 38276, June 29, 1979. Redesignated and amended at 47 FR 25971, June 16, 1982. Further redesignated at 47 FR 47006, Oct. 22, 1982]

Subpart G—Issuance of Leases

§ 256.35 Qualifications of lessees.

(a) In accordance with section 8 of the Act, leases shall be awarded only to the highest responsible qualified bidder.

(b) Mineral leases issued pursuant to section 8 of the Act may be held only by: (1) Citizens and nationals of the United States, (2) aliens lawfully admitted for permanent residence in the United States as defined in 8 U.S.C. 1101(a)(20); (3) private, public or municipal corporations organized under the laws of the United States or of any State or of the District of Columbia or territory thereof, or (4) associations of such citizens, nationals, resident aliens, or private, public, or municipal corporations, States, or political subdivisions of States.

(c) MMS may disqualify you from acquiring any new leaseholdings or lease assignments if your operating performance is unacceptable according to 30 CFR 250.135.

[44 FR 38276, June 29, 1979. Redesignated at 47 FR 47006, Oct. 22, 1982, as amended at 64 FR 72795, Dec. 28, 1999]

§ 256.37 Lease term.

(a)(1) All oil and gas leases shall be issued for an initial period of 5 years, or not to exceed 10 years where the authorized officer finds that such longer period is necessary to encourage exploration and development in areas because of unusually deep water or other unusually adverse conditions.

(2) If your oil and gas lease is in water depths between 400 and 800 meters, it will have an initial lease term of 8 years unless MMS establishes a different lease term under paragraph a)(1) of this section.

(3) For leases issued with an initial term of 8 years, you must begin an exploratory well within the first 5 years of the term to avoid lease cancellation.

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(b) An oil and gas lease shall continue after such initial period for as long as oil or gas is produced from the lease in paying quantities, or drilling or well reworking operations as approved by the Secretary are conducted. The term of an oil and gas lease is subject to further extension as provided in § 256.73 of this part.

(c) Sulphur leases shall be issued for a term not to exceed 10 years and so long thereafter as sulphur is produced from the leasehold in paying quantities, or drilling, well reworking, plant construction, or other operations for the production of sulphur, as approved by the Secretary, are conducted thereon.

[44 FR 38276, June 29, 1979. Redesignated at 47 FR 47006, Oct. 22, 1982 and amended at 50 FR 49043, Nov. 29, 1985; 54 FR 2049, Jan. 18, 1989; 61 FR 55889, Oct. 30, 1996]

§ 256.38 Joint bidding provisions.

§ 256.40 Definitions.

The following definitions apply to §§ 256.38 through 256.44 of this part.

(a) *Single bid* means a bid submitted by one person for an oil and gas lease under section 8(a) of the Act.

(b) *Joint bid* means a bid submitted by two or more persons for an oil and gas lease under section 8(a) of the Act.

(c) *Average daily production* is the total of all production in an applicable production period which is chargeable under § 256.43 of this title divided by the exact number of calendar days in the applicable production period.

(d) *Barrel* means 42 U.S. gallons.

(e) *Crude oil* means a mixture of liquid hydrocarbons including condensate that exists in natural underground reservoirs and remains liquid at atmospheric pressure after passing through surface separating facilities, but does not include liquid hydrocarbons produced from tar sand, gilsonite, oil shale, or coal.

(f) *An economic interest* means any right to, or any right dependent upon, production of crude oil, natural gas, or liquefied petroleum products and shall include, but not be limited to, a royalty interest, or overriding royalty interest, whether payable in cash or in kind, a working interest, a net profits

interest, a production payment, or a carried interest.

(g) *Liquefied petroleum products* means natural gas liquid products including the following: ethane, propane, butane, pentane, natural gasoline, and other natural gas products recovered by a process of absorption, adsorption, compression, or refrigeration cycling, or a combination of such processes.

(h) *Natural gas* means a mixture of hydrocarbons and varying quantities of nonhydrocarbons that exist in the gaseous phase.

(i) *Oil and gas lease* means an oil and gas lease either offered or issued pursuant to the provisions of the Act.

(j) *Owned* means:

(1) *With respect to crude oil*—having either an economic interest in or a power of disposition over the production of crude oil;

(2) *With respect to natural gas*—having either an economic interest in or a power of disposition over the production of natural gas; and

(3) *With respect to liquefied petroleum products*—having either an economic interest in or a power of disposition over any liquefied petroleum product at the time of completion of the liquefaction process.

(k) *Prior production period* means the continuous six month period of January 1 through June 30 preceding November 1 through April 30 for joint bids submitted during the six month bidding period from November 1 through April 30, and means the continuous six month period of July 1 through December 31 preceding May 1 through October 31 for joint bids submitted during the six month bidding period from May 1 through October 31.

(l) *Production*—(1) *Of crude oil* means the volume of crude oil produced worldwide from reservoirs during the prior production period. The amount of such crude oil production shall be established by measurement of volumes delivered at the point of custody transfer (e.g., from storage tanks to pipelines, trucks, tankers, or other media for transport to refineries or terminals) with adjustments for:

- (i) Net differences between opening and closing inventories, and
- (ii) Basic sediment and water;

(2) *Of natural gas* means the volume of natural gas produced worldwide from natural oil and gas reservoirs during the prior production period, with adjustments, where applicable, to reflect

(i) The volume of gas returned to natural reservoirs; and

(ii) The reduction of volume resulting from the removal of natural gas liquids and nonhydrocarbon gases.

(3) *Of liquefied petroleum products* means the volume of natural gas liquids produced from reservoir gas and liquefied at surface separators, field facilities, or gas processing plants worldwide during the prior production period; these liquefied petroleum products include the following:

(i) *Condensate*—natural gas liquids recovered from gas well gas (associated and non-associated) in separators or field facilities;

(ii) *Gas plant products*—natural gas liquids recovered from natural gas in gas processing plants and from field facilities. Gas plant products shall include the following as classified according to the standards of the Natural Gas Processors Association (NGPA) or the American Society for Testing and Materials (ASTM):

(A) Ethane—C₂ H₆

(B) Propane—C₃ H₈

(C) Butane—C₄ H₁₀ including all products covered by NGPA specifications for commercial butane.

(1) Isobutane,

(2) Normal butane,

(3) Other butanes—all butanes not included as isobutane or normal butane;

(D) Butane-Propane Mixtures—All products covered by NGPA specifications for butane-propane mixtures;

(E) Natural Gasoline—A mixture of hydrocarbons extracted from natural gas, which meet vapor pressure, end point, and other specifications for natural gasoline set by NGPA;

(F) Plant Condensate—A natural gas plant product recovered and separated as a liquid at gas inlet separators or scrubbers in processing plants or field facilities; and

(G) Other Natural Gas Plant Products meeting refined product standards (i.e., gasoline, kerosene, distillate, etc.).

(m) *Six month bidding period* means the six month period of time

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(1) From May 1 through October 31; or

(2) From November 1 through April 30, respectively.

[44 FR 38276, June 29, 1979; 44 FR 55380, Sept. 26, 1979. Redesignated at 47 FR 47006, Oct. 22, 1982, as amended at 66 FR 11518, Feb. 23, 2001]

§ 256.41 Joint bidding requirements.

(a) Any person who submits a joint bid for any oil and gas lease during a 6-month bidding period, and who was chargeable for the prior production period with an average daily production in excess of 1.6 million barrels of crude oil, natural gas and liquified petroleum products, shall have filed under oath with the Director, a Statement of Production of crude oil, natural gas and liquified petroleum products, hereinafter referred to as a Statement of Production, no later than 45 days prior to the commencement of the applicable 6-month bidding period of May 1 through October 31, and November 1 through April 30. Statements of Production shall be submitted to the Director, MMS (Attention: Offshore Leasing Management Division), Washington, DC 20240. The Statement of Production shall indicate that the person was chargeable, in accordance with § 256.43 of this part, with an average daily production in excess of 1.6 million barrels of crude oil, natural gas and liquified petroleum products for the prior production period. The Director shall publish semi-annually in the FEDERAL REGISTER a "List of Restricted Joint Bidders" to be effective immediately upon publication and to continue in force and effect until a subsequent list is published. The "List of Restricted Joint Bidders" shall consist of those persons, who in the judgment of the Director, based on information available to him, including, but not limited to, sworn Statements of Production, are chargeable under § 256.43 of this part with an average daily production in excess of 1.6 million barrels of crude oil, natural gas and liquified petroleum products for the prior production period.

(b) When a person is placed on the List of Restricted Joint Bidders the Director shall serve that person either personally or by certified mail, return receipt requested, with a copy of the

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Director's Order placing that person on the List of Restricted Joint Bidders. Any appeal from that Order or from an adverse effect of that Order shall be made in accordance with the provisions of 43 CFR part 4.

(c) The submission of a Statement of Production or of a detailed Report of Production under § 256.46(g) of this part which misrepresents the chargeable production of the reporting person shall constitute failure to comply with these regulations and any lease awarded in reliance on that Statement or Report of Production may be canceled, pursuant to section 8(o) of the Act and regulations issued thereunder as having been obtained by fraud or misrepresentation.

(d) The Secretary may exempt a person from the provisions of §§ 256.41(a), 256.44, 256.46(g) and 256.62(b) of this part if it is found, on the record, after an opportunity for an agency hearing, that lands being offered have extremely high cost exploration and development problems and that exploration and development will not occur on such lands unless the exemption is granted.

[44 FR 38276, June 29, 1979; 44 FR 55380, Sept. 26, 1979, as amended at 45 FR 69174, Oct. 17, 1980; 47 FR 25971, June 16, 1982. Redesignated and amended at 47 FR 47006, 47007, Oct. 22, 1982]

§ 256.43 Chargeability for production.

(a) As used in this section the following definitions shall control:

(1) *Person* means a natural person or company.

(2) *Company* means a corporation, a partnership, an association, a joint-stock company, a trust, a fund, or any group of persons whether incorporated or not; it also means any receiver, trustee in bankruptcy, or similar official acting for such a company.

(3) *Subsidiary* means a company 50 percent or more of whose stock or other interest having power to vote for the election of directors, trustees, or other similar controlling body of the company is directly or indirectly owned, controlled, or held with the power to vote by another company; a subsidiary shall be deemed a subsidiary